

LAW OFFICES

GULLETT, SANFORD, ROBINSON & MARTIN, PLLC

230 FOURTH AVENUE, NORTH, 3RD FLOOR
POST OFFICE BOX 198888
NASHVILLE, TENNESSEE 37219-8888

TELEPHONE (615) 244-4994
FACSIMILE (615) 256-6339
WWW.GSRM.NET

REGULATORY
01 SEP 2001
EXECUTIVE
GARETH S. ADEN
LAWRENCE R. AHERN III
G. RHEA BUCY
CHRISTOPHER W. CARDWELL
GEORGE V. CRAWFORD, JR.
GEORGE V. CRAWFORD III
A. SCOTT DERRICK
THOMAS H. FORRESTER
MARCY S. HARDEE
M. TAYLOR HARRIS, JR.
DAN HASKELL
ANDRA J. HEDRICK
DAVID W. HOUSTON IV
LINDA W. KNIGHT
JOEL M. LEEMAN
ALLEN D. LENTZ
JOSEPH MARTIN, JR.
JEFFREY MOBLEY

WM. ROBERT POPE, JR.
WAYNE L. ROBBINS, JR.
JACK W. ROBINSON, JR.
JACK W. ROBINSON, SR.
VALERIUS SANFORD
WESLEY D. TURNER
PHILLIP P. WELTY
JOHN D. LENTZ
OF COUNSEL
B. B. GULLETT
1905-1992

September 7, 2001

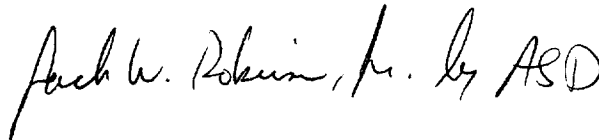
Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37201

In Re: *Joint Petition of Crockett Telephone, Inc., People's Telephone Company,
West Tennessee Telephone Company, Inc. and the Consumer Advocate
Division of the Office of the Attorney General for the Approval and
Implementation of Earnings Review Settlement*
Docket No. 99-00995

Dear Mr. Waddell:

Enclosed for filing in connection with the above-referenced docket are the original and thirteen copies of the written direct testimony of AT&T witness Richard T. Guepe. Copies are being served on counsel for parties of record.

Yours very truly,



Jack W. Robinson, Jr.

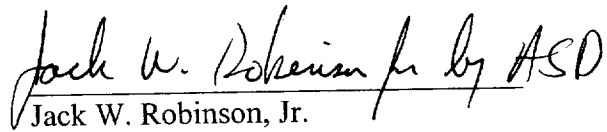
JWS/ghc

Enclosures

cc: T.G. Pappas and R. Dale Grimes
Timothy C. Phillips
Gene V. Coker
Garry Sharp

CERTIFICATE OF SERVICE

I, Jack W. Robinson, Jr., hereby certify that I have on this 7th day of September 2001 served via Hand-Delivery or first class mail, a copy of the foregoing Direct Testimony of AT&T Communications of the South Central States, Inc. witness Richard T. Guepe on T.G. Pappas and R. Dale Grimes, Esq. Bass, Berry & Sims, 2700 First American Center, 313 Deaderick Street, Nashville, TN 37238-2700 and a copy to Timothy C. Phillips, Esq., Consumer Advocate Division, 425 5th Avenue, North, P. O. Box 20207, Nashville, TN 37202.


Jack W. Robinson, Jr.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

PREFILED DIRECT TESTIMONY OF

RICHARD T. GUEPE

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

DOCKET NO. 99-00995

SEPTEMBER 7, 2001

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Richard T. Guepe. My business address is 1200 Peachtree Street, Atlanta,
3 Georgia, 30309.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by AT&T Corp. as a District Manager in its Law & Government Affairs
7 organization, providing support for AT&T's regulatory advocacy in the nine states that
8 make up AT&T's Southern Region.

9
10 **Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
11 **EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.**

12 A. I received a Bachelor of Science Degree in Metallurgical Engineering in 1968 from the
13 University of Notre Dame in South Bend, Indiana. I received a Masters of Business
14 Administration Degree in 1973 from the University of Tennessee in Knoxville,
15 Tennessee. My telecommunications career began in 1973 with South Central Bell
16 Telephone Company in Maryville, Tennessee, as an outside plant engineer. During my
17 tenure with South Central Bell, I held various assignments in outside plant engineering,
18 buildings, and real estate, investment separations and division of revenues. At divestiture
19 (1/1/84), I transferred to AT&T where I have held numerous management positions in
20 Atlanta, Georgia, and Basking Ridge, New Jersey, with responsibilities for investment
21 separations, analysis of access charges and tariffs, training development, financial
22 analysis and budgeting, strategic planning, regulatory issue management, product
23 implementation, strategic pricing, and docket management.

24

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE PUBLIC**
2 **SERVICE COMMISSION?**

3 A. Yes, I have testified on behalf of AT&T in Tennessee, Alabama, Florida, Georgia,
4 Mississippi, South Carolina, and North Carolina on product implementation issues,
5 pricing issues, and policy issues.

6
7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. The purpose of my testimony is to address the issues identified in the August 24, 2001
9 Order issued by the Pre-Hearing Officer and in doing so explain why the TRA should
10 reduce the intrastate switched access rates charged by Crockett Telephone Company,
11 Inc., Peoples Telephone Company, and West Tennessee Telephone Company, Inc.
12 (collectively “the TEC Companies), in conjunction with the disposition of excess
13 revenues.

14
15 The TEC Companies intrastate switched access services are essential services that
16 competing toll carriers such as AT&T must purchase in order to originate and terminate
17 its customer’s long distance calls. The TEC Companies currently control the market for
18 access services in the Tennessee markets they serve, and have set rates for these services
19 at levels that far exceed the cost of providing them.

20
21 **ISSUE 1: Whether the amount of overearnings identified in the Settlement Agreement for**
22 **the TEC Companies for the years 1999 – 2001 is correct.**

23

1 **Q. DOES AT&T CONTEST THE AMOUNT OF OVEREARNINGS IDENTIFIED IN**
2 **THE SETTLEMENT AGREEMENT FOR THE TEC COMPANIES FOR THE**
3 **YEARS 1999 - 2001?**

4 A. AT&T has not been provided sufficient information to evaluate or contest the amount of
5 over-earnings for 1999 – 2001 agreed upon by the TEC Companies and the CAD in their
6 settlement. AT&T submitted discovery requests on March 23, 2000 that would have
7 assisted in the analysis of this issue, but have not received any responses as of this date.
8 Therefore for purposes of this testimony and for purposes of the Memorandum of
9 Understanding between AT&T and the TEC Companies, AT&T has accepted that
10 amount and offers no opinion at this time as to whether such amount is accurate or
11 appropriate. Upon receipt and analysis of discovery responses, AT&T may express a
12 different view later.

13
14 **ISSUE 2: How and to what extent the rate design in the Settlement Agreement should be**
15 **amended to adjust for the overearnings identified therein.**

16
17 **Q. SHOULD THE RATE DESIGN DESCRIBED IN THE SETTLEMENT BE**
18 **AMENDED?**

19 A. Yes, the Settlement Agreement rate design should be modified to incorporate the
20 Memorandum of Understanding signed by the TEC Companies and AT&T¹. Although
21 AT&T recognizes that the Pre-Hearing Officer declined to approve the Memorandum of
22 Understanding, AT&T continues to believe that it provides an acceptable solution to the
23 controversy presented in this case and continues to support its approval. If the TRA

1 decides not to approve the Memorandum of Understanding, then alternatively, the rate
2 design in the Settlement Agreement should be amended so that the amount of over-
3 earnings is used to reduce access charges as described later in my testimony.
4

5 **Q. UNDER RATE OF RETURN REGULATION, WHAT IS AN OBJECTIVE OF A**
6 **PROPER RATE DESIGN?**

7 A. Ideally, tariff rates are set such that the regulated carrier does not have either under-
8 earnings, thereby requiring rate increases, or over-earnings, thereby requiring rate
9 decreases. The TEC Companies' current rate structure has resulted in over-earnings and,
10 as a result, rate reductions need to be made. The Memorandum of Understanding
11 between the TEC Companies and AT&T addresses the over-earnings situation and is
12 proper rate design.
13

14 **Q. SINCE THESE PROPOSED AGREEMENTS TO SETTLE THIS CASE HAVE**
15 **NOT BEEN APPROVED, WHAT SHOULD BE DONE TO REMEDY THE TEC**
16 **COMPANIES' OVER-EARNINGS?**

17 A. It is rational to reduce tariff rates of services that have contributed to the over-earnings.
18 It would make no sense at all to reduce rates of services that are priced at or below cost
19 because those services are not the source of the over-earnings. The source of the
20 excessive profits are those services that are priced well above their costs, such as
21 intrastate access services. As I explain in the following, AT&T proposes that access
22 charges be reduced to remedy the over-earnings.

¹ The Memorandum of Understanding is attached a Exhibit RTG-1.

1 **Q. PLEASE EXPLAIN WHAT ARE ACCESS CHARGES?**

2
3 A. The intrastate access rates are the rates local exchange companies, such as the TEC
4 Companies, charge interexchange carriers (IXCs), such as AT&T, to compensate them
5 for the use of their network facilities, which are used by the IXCs to originate and
6 terminate long distance telephone calls made by IXC's customers within a particular
7 state.

8
9 **Q. WHAT ACCESS RATE ELEMENTS PERTAIN TO THE VARIOUS PORTIONS**
10 **OF THE TEC COMPANIES NETWORK USED BY AT&T?**

11 A. Although the price of intrastate access is generally identified as a single per minute rate,
12 it actually is comprised of several rate elements. Thus, in order to complete its
13 customers' long distance calls in Tennessee, AT&T is charged the following access rate
14 elements by each TEC Company:

- 15 • Carrier Common Line – (this applies to calls that originate and terminate to a
16 TEC companies local customer);
- 17 • Local Switching – End Office and Tandem Switching (these apply to calls
18 originated by TEC Company local customers who have picked AT&T as their
19 long distance provider or terminated to TEC local customers);
- 20 • Transport - Common, and Dedicated (these apply to both originated and
21 terminated calls); and
- 22 • Interconnection Charge (TIC) - Originating and Terminating Traffic (this
23 applies to calls originated by TEC local customers who have picked AT&T as
24 their long distance provider or terminated to TEC local customers)

- 1 • Directory Assistance/Information Surcharge - (this applies to calls that
2 originate and terminate to a TEC companies local customer); This element
3 was created to subsidize white pages directory listings.

4
5 Together, these rate elements make up the TEC Companies intrastate access rates in
6 Tennessee, which today is approximately 14.9 cents per minute for Crockett Telephone
7 Company, Inc., 15.5 cents for Peoples Telephone Company, and 14.1 cents for West
8 Tennessee Telephone Company, Inc.

9
10 **Q. HOW DID ACCESS CHARGES BEGIN?**

11 A. Before the divestiture of the Bell Operating Companies (BOCs), AT&T compensated the
12 BOCs for the use of their networks through the division of revenues process and
13 compensated the independent telephone companies through the settlements process. The
14 Modification of Final Judgment, which governed the divestiture of the BOCs from AT&T,
15 mandated competition in the interexchange markets and required that the division of
16 revenues process be replaced by a system of non-discriminatory access tariffs² through
17 which the BOCs would receive compensation from all IXC; United States v. AT&T Co.,
18 553 F. Supp. 131, 232-234 (D.C. 1982). The FCC as a consequence of its independent
19 investigation into the appropriate market structure for the MTS & WATS market,
20 imposed access charges as the industry-wide mechanism for compensating exchange
21 carriers providing interstate access service.

² The development of access charges is succinctly summarized by the FCC at Footnote 34, In the matter of Policy and Rules Concerning Rates For Dominant Carriers, 2 FCC Rec. 5208, 5225 (1987).

1 With these changes in the basic structure of the industry, the Tennessee Public Service
2 Commission was compelled to take action with respect to the intrastate market. The
3 actual imposition of Tennessee intrastate access charges began with an order entered by
4 the Tennessee Public Service Commission on December 22, 1983. These intrastate
5 access charges were designed to cover the cost of access and to replace the toll revenue
6 contribution that was lost as a result of divestiture.

7 The toll contribution was subsidy from toll revenues used to support basic local exchange
8 service. The access charge "problem" resulted from toll minutes of use growing at a
9 much higher rate than the growth of access lines. Thus, access services began generating
10 much more revenue than was needed by the incumbent local exchange companies.

11 On March 4, 1985, the Tennessee PSC entered a further order with respect to access
12 charges. *In re: Investigation concerning Intrastate Access Charges*, Docket No. U-83-
13 7261 and related access charge dockets. In that order, the Commission, at page 8,
14 reiterated:

15 Similarly, access charges in Tennessee are not now, and have never
16 been, based on costs. Tr. 35. The purpose of the Commission Order of
17 December 22, 1983, was to establish access charges at a level which
18 would replace, in full, the revenues formerly received by the local
19 exchange telephone companies from intrastate toll calls under the
20 division of revenues and the separations and settlements process.

21
22 The Commission then ordered at page 12:

23
24 1. That in future ratemaking proceedings, the Commission will
25 continue to adhere to a policy protecting local ratepayers by setting
26 carrier access charges at a level which will maintain a reasonable level
27 of contribution of intrastate toll services to local exchange services. In
28 order to accomplish that purpose, the Commission finds that the OCC
29 discount should be eliminated from intrastate access charges. It is also
30 the policy of this Commission to protect universal service by setting toll
31 rates which do not encourage uneconomic bypass. The Commission

1 finds that the most feasible way to discourage bypass is to reduce, over a
2 period of time, the Common Carrier Line Charge and to find alternative
3 methods of preserving the contribution of toll services to the costs of
4 maintaining the local network.
5

6 **Q. WHY IS IT APPROPRIATE TO REDUCE ACCESS CHARGES NOW?**

7 A. The primary reason is because the TEC Companies are in an over-earnings situation (i.e.,
8 they are earning more than a reasonable rate of return on their Tennessee operations) and
9 access charges have been a major contributor to these over-earnings. By design, access
10 rates were set at levels significantly above costs to help ensure that basic local service
11 rates were set at “affordable levels” – and in some cases, below the local company’s
12 actual cost of providing basic service. For Rate-of-Return (ROR) regulated companies
13 (such as the TEC Companies), access prices are factored in the development of each
14 company’s “revenue requirement.” The revenue requirement is the forecasted amount of
15 revenue each of the local company’s regulated services should produce based on the
16 anticipated demand for each specific service. The calculated revenue requirement and
17 the actual revenues generated, ultimately drives each company’s financial return on the
18 amount of money a company has invested in Tennessee. For the test period 1999-2001,
19 The TEC company’s calculated ROR exceeded the authorized ROR – meaning that there
20 were more revenues generated than required to cover the cost of the TEC Companies’
21 cost of doing business (including the cost of basic local exchange service) and to generate
22 a reasonable rate of return. According to the Settlement Agreement, the level of over-
23 earnings amounted to \$ 6.3M.

24 In addition, there is no *need* for high access charges. Local phone companies like the
25 TEC Companies enjoy a wide range of economic opportunity as they introduce new
26 technologies and new services every day. Many of these services – such as call waiting,

1 call forwarding, second lines and new data services – bring substantial new revenues with
2 little additional cost

3 High access charges are a legacy of a bygone era. They are no longer needed and, just as
4 importantly, they are no longer appropriate. Long distance calling is not the luxury of the
5 few, but is a main staple of today's telecommunications usage. The TEC Companies³
6 provide their *own* long distance services and thus have no legitimate interest in profiting
7 from the long distance services of others. High access charges inherently favor the long
8 distance service of the local telephone company because they inflate the cost of their
9 competitors.

10 Because responses to discovery requests have not been received from the TEC
11 Companies, a thorough analysis and comparison of the TEC Companies' access rates and
12 the long distance rates of their subsidiary companies has not been completed. However,
13 the TEC Companies' internet site (www.tec.com) indicates VarTec offers a 7 cents per
14 minute plan with no monthly fee and no minimum calling time. This is priced lower than
15 even one end of access in each of the TEC Companies and less than 50% of the price of
16 access that competitors must pay to complete calls within the TEC territory. Where the
17 retail rate is priced below the price of access, then the "losses" must be covered
18 (subsidized) through other services, such as the access charged to competitors. High
19 access charges have never been conducive of competitive development in the long
20 distance market and will surely become much more of an impediment when competition
21 is embraced in the local market. Cost based switched access rates are fundamental to
22 achieving the full benefits of a competitive market.

Q. CAN YOU ITEMIZE BY RATE ELEMENT, THE CURRENT SWITCHED ACCESS CHARGES FOR EACH TEC COMPANY IN TENNESSEE?

A. Yes. As stated previously, Crockett Telephone's current intrastate access rate is approximately 14.9 cents per minute of long distance calling, Peoples Telephone Company's access rate is approximately 15.5 cents per minute of use and West Tennessee's rate is approximately 14.1 cents per minute of use. The following provides a "rate element" breakdown of each company's Tennessee intrastate switched access rates that are currently in effect:

<u>Access Rate Element</u>	<u>Crockett</u>	<u>Peoples</u>	<u>West TN</u>
<u>Originating Side of Call</u>			
Carrier Common Line	\$0.0165	\$0.0198	\$0.0126
Interconnection (RIC)	0.0151	0.0151	0.0151
Local Switching	0.0404	0.0404	0.0404
Transport	0.0009	0.0009	0.0009
DA/Information Surcharge	0.00198	0.00198	0.00198
<u>Terminating Side of Call</u>			
Carrier Common Line	\$0.0179	\$0.0212	\$0.0140
Interconnection (RIC)	0.0151	0.0151	0.0151
Local Switching	0.0404	0.0404	0.0404
Transport	0.0009	0.0009	0.0009
DA/Information Surcharge	0.00198	0.00198	0.00198
Total Access Price per Minute of Long Distance:	\$0.1488	\$0.1555	\$0.1410

³ The TEC Companies provide long distance services through various subsidiaries such as CommuniGroup, Inc. and VarTec Telecom, Inc. See TEC web site www.tec.com for information on these subsidiary companies.

1 **Q. IS THERE A COST INCURRED BY THE TEC COMPANIES FOR THE**
2 **CARRIER COMMON LINE (CCL) AND THE INTERCONNECTION CHARGE**
3 **(TIC) ELEMENTS?**

4 A. No. There is no cost to these companies for CCL or TIC. In other words, there is no
5 underlying cost associated with these particular rate elements. The CCL and TIC are
6 both pure revenue generating elements, a tax if you will, levied by these companies on all
7 interexchange carriers purchasing switched access service.

8
9 **Q. IS THERE A COST INCURRED BY THE TEC COMPANIES FOR THE**
10 **DIRECTORY ASSISTANCE/INFORMATION SURCHARGE IN THE**
11 **PROVISION OF SWITCHED ACCESS?**

12 A. No. The Directory Assistance/Information surcharge provides a subsidy for cost incurred
13 in the preparation of the TEC Companies white page listings.

14
15 **Q. IS IT REASONABLE TO ASSUME THAT MARKET FORCES WILL FURTHER**
16 **REDUCE THE PRICE OF ACCESS SERVICE AS COMPETITION BEGINS TO**
17 **DEVELOP IN THE LOCAL MARKET?**

18 A. No. In the case of intrastate access services, it is currently not reasonable to rely on market
19 pressure to move prices towards cost. Although “market forces” can be very powerful in
20 moving the price of goods and services toward costs in an open and equal competitive
21 environment, the constant and remaining monopoly control that the TEC Companies now
22 have over local networks and the provision of intrastate access services – and is likely to
23 have for the foreseeable future – makes it unlikely that competition for these services can
24 develop quickly enough to reduce prices in an acceptable time frame.

1
2
3 **Q. IS THE RATE DESIGN PROPOSED BY THE CAD/TEC SETTLEMENT**
4 **AGREEMENT ECONOMICALLY SOUND?**

5 A. No, the rate design proposed makes no economic sense and does not address over-
6 earnings on a going forward basis. The settlement proposes to reduce basic local service
7 rates as follows:

	Crockett		Peoples		West Tenn.	
	Existing	Proposed	Existing	Proposed	Existing	Proposed
Basic Residential Service	\$ 10.54	\$ 5.79	\$ 6.66	\$ 1.91	\$ 5.86	\$ 1.11
Basic Business Service	\$ 24.14	\$ 19.14	\$ 12.96	\$ 7.96	\$ 10.46	\$ 5.46

8
9 It is irrational to reduce the price of services that are below cost ⁴. It is rational to reduce
10 the price of services that have the greatest markup over cost – the highest priority should
11 be services which have no cost basis, the CCL and TIC access rates.

12
13 **AT&T'S ACCESS RATE PROPOSAL**

14 **Q. WHAT ACCESS SERVICE RATES ARE YOU RECOMMENDING THE TRA**
15 **SET FOR THE TEC COMPANIES?**

16 A. AT&T recommends that the TRA immediately lower the TEC Companies intrastate
17 access rates by reducing or eliminating specific access rate elements, as follows:

- 18 • Eliminate the current Carrier Common Line rate element;
19 • Eliminate the current Interconnection rate element;

⁴ Although no local service costs have been presented in this case, it is widely held in the industry that basic local residential rates are near or below cost.

- Eliminate the current DA/Information surcharge element.

These specific reductions would lower the total intrastate access rate AT&T pays Crockett Telephone from the current rates to 8.39 cents per minute, Peoples 8.39 cents per minute and 8.39 per minute for West Tennessee.

In addition, both local switching and transport rates provide contributions to the TEC Companies and the following reductions should be implemented:

- Reduce the Local Switching rates with remaining available funds after the complete elimination of CCL, Interconnection and Information surcharge rate elements; and
- Reduce the effective transport rates with remaining available funds after the complete elimination of CCL, Interconnection and Information surcharge rate elements, and after achieving a cost-based Local Switching per-minute-of-use rate.

Q. IS AT&T'S ACCESS RATE PROPOSAL CONSISTENT WITH THE CURRENT TREND IN TELECOMMUNICATIONS REGULATION TO ENCOURAGE COST-BASED PRICING OF ESSENTIAL NETWORK SERVICES?

A. Yes. The rate changes requested by AT&T are consistent with the prevailing trend in telecommunications regulation to adopt rates that drive the prices of essential network functionalities toward their costs. The Telecommunications Act of 1996 made the attainment of cost-based pricing one of its fundamental principles. Section 252(d)(1) of

1 the Act states that just and reasonable rates for network elements shall be “based on the
2 cost” of providing the element. Similarly, the FCC, in ¶620 of its First Report and Order
3 in CC 96-98, established a “cost-based pricing methodology based on forward-looking
4 economic costs” as the “approach for setting [interconnection and network element]
5 prices that best furthers the goals of the 1996 Act.” In ¶1054 of its Order, the FCC
6 further concluded that “transport of traffic should be priced based on the same cost-based
7 standard, whether it is transport using unbundled elements or transport of traffic that
8 originated on a competing carrier’s network.”
9

10 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

11 **A.** Yes. The TEC intrastate access rates are too high and need to be reduced. Historically,
12 access revenues were maintained at high levels to assure there was sufficient revenue to
13 support the cost of basic local exchange service. In this Docket it has been found that the
14 TEC Companies have rates that generate earnings greater than their authorized rates of
15 return. Thus, their existing rates are unjust, unreasonable and excessive. AT&T
16 negotiated a Memorandum of Understanding with the TEC Companies that would require
17 only a minor modification of the original Settlement Agreement and at the same time
18 address the over-earnings problem on a going forward basis. AT&T continues to believe
19 that the Memorandum of Understanding reasonably addresses its access concerns and
20 continues to support its adoption by the TRA. Alternatively, if the Memorandum of
21 Understanding is not approved by the TRA, then the rate design proposal in the
22 Settlement Agreement must be substantially modified. The rate design proposal in the
23 Settlement Agreement is inadequate because it is not directed toward correcting those
24 rates that directly contributed to the over-earnings situation and because it does nothing

1 to change any rates on a going forward basis in order to prevent the TEC Companies
2 from continuing to earn excessive profits. If the TRA does not approve the
3 Memorandum of Understanding, it should require reductions in the rates of services that
4 have contributed to the over-earnings and not reduce or refund charges for services that
5 are priced at or below their costs. Specifically, the TRA should require the reduction of
6 the Carrier Common Line, the Interconnection charge, and the Directory
7 Assistance/Information surcharge access rate elements to zero, as they have no cost basis
8 for access services. If there is excessive earnings after making those changes, additional
9 reductions should be made for the Local Switching and Local Transport rates.

10
11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.

EXHIBIT RTG-1
TRA Docket #
99-00995MEMORANDUM OF UNDERSTANDING

AT&T Communications of the South Central States, Inc. ("AT&T"), and Crockett Telephone Company, Inc., Peoples Telephone Company, and West Tennessee Telephone Company, Inc. (the "TEC Companies"), in consideration of the mutual promises of the parties contained herein, agree as follows:

1. The TEC Companies agree to file for approval with the Tennessee Regulatory Authority ("TRA"), all proposed tariffs required to reduce the access charge rates for Transport Interconnection Charge ("TIC"), Carrier Common Line Charge ("CCL"), and DA Surcharge. The proposed tariffs will provide that as of January 1, 2003, the rates for TIC, CCL, and DA Surcharge will be zero, and that the rates for TIC, CCL, and DA Surcharge will be reduced by 25% of the rates in effect as of the date of this Memorandum of Understanding on each of the following dates: July 1, 2001, January 1, 2002, July 1, 2002 and January 1, 2003, in order to reduce said rates to zero by January 1, 2003.

2. AT&T will seek and agree to the entry of a pre-trial order staying or holding in abeyance pending approval of such tariffs, all discovery requests it filed in TRA Docket No. 99-00995. Pending such stay, AT&T will also cease all activities and efforts to oppose the Joint Petition of the TEC Companies and the Consumer Advocate Division of the Attorney General's office for the approval and implementation of the Earnings Review Settlement for the years 1999 through 2001, as filed with the TRA in Docket No. 99-00995, subject to changes agreed to herein.

3. In the event the TRA does not approve the tariffs described in paragraph 1 herein, the parties' obligations set forth in paragraphs 1 and 2 herein shall terminate.

4. Upon approval of the tariffs described in paragraph 1 herein, AT&T agrees that its Petition filed with the TRA on December 10, 1999, as well as its Petition for Intervention filed with the TRA on January 14, 2000, both of which were consolidated and granted by the TRA in Docket No. 99-00995 by Order issued March 29, 2000, shall be automatically withdrawn.

DATED this 30th day of March, 2001.

Crockett Telephone Company, Inc.
Peoples Telephone Company, and West
Tennessee Telephone Company, Inc.

By: [Signature]

AT&T Communications of the South
Central States, Inc.

By: [Signature]
GARY SHARP